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# **In the Supreme Court of the United States**

**OCTOBER TERM, 1938**

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**No. 1**

**GENERAL TALKING PICTURES CORPORATION, PETITIONER**

**v.**

**WESTERN ELECTRIC COMPANY, INC., ELECTRICAL RESEARCH PRODUCTS, INC., AND AMERICAN TELEPHONE AND TELEGRAPH COMPANY**

---

**ON WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE SECOND CIRCUIT**

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**BRIEF FOR THE UNITED STATES AS AMICUS CURIAE**

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## **OPINIONS BELOW**

The opinion of the District Court for the Southern District of New York (R. 1618) is reported in 16 F. Supp. 293. The opinion of the United States Circuit Court of Appeals for the Second Circuit (R. 1712) is reported in 91 F. (2d) 922.

## **JURISDICTION**

The decree of the Circuit Court of Appeals was entered on October 27, 1936 (R. 1712). A petition

for a writ of certiorari was granted on October 11, 1937 (302 U. S. 674). The jurisdiction of this Court is invoked under Section 240 (a) of the Judicial Code as amended by the Act of February 13, 1925.

The cause was first heard by this Court on December 13 and 14, 1937, and an opinion was handed down on May 2, 1938 (304 U. S. 175). On May 31, 1938, this Court granted a rehearing on the first two questions stated in the petition for certiorari.

#### QUESTIONS PRESENTED

1. Can the owner of a patent, by means thereof, restrict the use made of a device manufactured under the patent, after the device has passed into the hands of a purchaser in the ordinary channels of trade, and full consideration paid therefor?

2. Can a patent owner, merely by a "license notice" attached to a device made under the patent, and sold in the ordinary channels of trade, place an enforceable restriction on the purchaser thereof as to the use to which the purchaser may put the device?

#### PRELIMINARY STATEMENT OF THE INTEREST OF THE UNITED STATES

The United States has no financial interest in this suit. The rule of law for which it contends, because of its limitation of the patent privilege, may appeal to neither party to the litigation. Yet, as representative of the public, the United



States has a substantial stake in the outcome. It is charged with the enforcement of the Sherman Act (15 U. S. C. Sec. 1-7) and the Clayton Act (15 U. S. C. Sec. 12-27) and a declaration of the validity of such a running restriction as is here at issue would put the administration of the antitrust acts in serious jeopardy.

The whole industrial system rests upon machine technology. It is an intricate aggregation of devices and processes. It depends upon the advance of science, is of very recent creation, and moves at a breathless pace. A concern must keep its technical processes up-to-date or fall behind in the competitive race. It is the rare invention which lives out its statutory span of seventeen years before it is succeeded by its better. Hence the vitality of inventions and discoveries inheres largely in the domain of "improvements"—under the aegis of the patent laws. The privileges granted by patents lie like a blanket over the whole intricate fabric of modern industry.

If a patent grant is limited to its proper orbit, the public policy embodied in the antitrust laws will be promoted. The constant referent for the limits of a patent will be its avowed constitutional purpose to "promote the progress of science and useful arts"; the scope of the rights of the patentee will be the legal permission to make, use, and vend given by the statute to implement the constitutional provision. The control by the owner over

the article which embodies his patent will be complete within this clearly defined constitutional and statutory domain; but it will cease with the disposition of the article by contract. Beyond this point the law governing transactions involving the article will be that declared by the common law and the applicable statutes. Thus the general law in respect to business will have its larger dominion, and the special exception granted to the inventor will have its clearly-defined province. Confusion as to the scope of the patent and antitrust laws will be avoided; an unwarranted extension of patent rights will not be permitted to nullify the antitrust acts; and a limited privilege for a particular purpose will not be allowed to render the law of the land inoperative.

But if the rights of the patent owners are allowed to be extended beyond the privilege to make, use, and vend, the whole matter becomes confused. Beyond this statutory limit it is not easy to draw any clear-cut line. A running restriction—such as restrictions upon time of use, place of use, and resale price—escapes the orbit of rights of the inventor and becomes interwoven with trade practices, methods of marketing, and the general usages under which all business is carried on. There the rights which inhere in a patent can be plead in extenuation of almost any restriction laid upon subsequent users or any burden of inconvenience imposed upon the public. And since patents per-



meate all technology, the threat is of legal sanction for a device which will exclude the competitive idea from one of the most important areas of American business and create an economic atmosphere in which the free play of individual enterprise is discouraged and restricted.

It is doubtless true that the United States by the prosecution of enforcement proceedings under the antitrust laws may be able to prevent and punish the more open and flagrant attempts to use the patent privilege to dominate industry and stifle competition. But as a practical matter, the encouragement of free enterprise and the preservation of the open market cannot be entirely left to preventive and punitive action by the law-enforcing branch of the government. Unless the private rights and obligations of men and of business units are governed by rules designed to encourage industrial freedom, the economic atmosphere may be such that governmental enforcement activities will be largely ineffective. Even spectacular victories in litigation instituted to enforce the antitrust laws are of no moment if men are to be free to make private arrangements which will thwart and nullify the public policy of these laws. Hence the importance of the instant case. It raises a crucial issue as to whether the content and incidents of private rights and obligations shall be consistent with the existence of private enterprise and a free and open market.

In short, the government presents a brief in a private suit because it seeks to prevent a historic public policy, first established by the common law and now embodied in the antitrust acts, from being nullified by an extension of patent rights beyond their statutory limits.

#### ARGUMENT

##### I

A GRANT OF MONOPOLY IS AN EXCEPTION TO THE GENERAL LAW AGAINST RESTRAINTS IN TRADE. AS SUCH AN EXCEPTION THE PATENT PRIVILEGE SHOULD BE CONSTRUED STRICTLY

Free trade is the rule and monopoly the exception in our law; therefore the presumption is against any monopoly; its need in public welfare must be shown and cannot be assumed.

That the King might make Corporations, and grant to them that they may make Ordinances for the ordering and government of any Trade; but *thereby they cannot make a Monopoly, for that is to take away Free-trade, which is the birthright of every Subject.* [Italics supplied.] *The Clothworkers of Ipswich Case*, Godbolt's Reports, 252, 253. Similarly, in *Turner v. Winter*, 1 T. R. 602, 605, the Court said:

I think that, as every patent is calculated to give a monopoly to the patentee, it is so far against the principles of law, and would be a reason against it, were it not for the advantages which the public derive from the communication of the invention \* \* \*

See also *Case of Monopolies*, 11 Coke 84 b.

The English and American Law of patents comes directly from a special exception for inventions in the Statute of Monopolies, 21 Jacob. I, c. 3, in 1623.

A patent is a limited monopoly granted for the ultimate purpose of developing the useful arts for the general public good. Although the means chosen to achieve this purpose give to the inventor the opportunity of pecuniary gain, the ultimate object of the law, nevertheless, remains the general good and not private advantage.

The power to grant patents is conferred by Article I, Section 8, of the Constitution, which authorizes the Congress "to promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." As this Court said in *Kendall et al. v. Winsor*, 21 How. 322, 327-328:

It is undeniably true, that the limited and temporary monopoly granted to inventors *was never designed for their exclusive profit or advantage*; the benefit to the public or community at large was another and doubtless the primary object in granting and securing that monopoly. This was at once the equivalent given by the public for benefits bestowed by the genius and meditations and skill of individuals, and the incentive to further efforts for the same important objects.



The true policy and ends of the patent laws enacted under this Government are disclosed in that article of the Constitution the source of all these laws, viz: "to promote the progress of science and the useful arts," contemplating and necessarily implying their extension and increasing adaptation to the uses of society. [Italics supplied.]

Again in *Motion Picture Co. v. Universal Film Co.*, 243 U. S. 502, 510-511, this Court said:

Since *Pennock v. Dialogue*, 2 Pet. 1, was decided in 1829 this Court has consistently held that the primary purpose of our patent laws is not the creation of private fortunes for the owners of patents but is "to promote the progress of science and useful arts" \* \* \*

No one would contend that a patent grant is an unrestricted license to violate the antitrust laws. And when the patent laws have been construed as granting a broader exemption from these laws than Congress has deemed to be in the public interest, it has amended the antitrust laws so as specifically to restrict them. Thus the amendment of Section 3 of the Clayton Act in 1914 (15 U. S. C.) was intended to prohibit the practice sanctioned by the decision of this Court in *Henry v. Dick Co.*, 224 U. S. 1, in 1912.

The patent statute (35 U. S. C., Sec. 40) gives the inventor the exclusive right for the term of seventeen years "to make, use, and vend the invention or

discovery throughout the United States and the Territories thereof."

In *Motion Picture Co. v. Universal Film Co.*, 243 U. S. 502, 510, the scope of the grant was defined by this Court in these words:

It has long been settled that the patentee receives nothing from the law which he did not have before, and that the only effect of his patent is to restrain others from manufacturing, using or selling that which he has invented. The patent law simply protects him in the monopoly of that which he has invented and has described in the claims of his patent. *United States v. American Bell Telephone Co.*, 167 U. S. 224, 239; *Paper Bag Patent Case*, 210 U. S. 405, 424; *Bauer v. O'Donnell*, 229 U. S. 1, 10.

A license is a mere permission granted by the patentee, a "mere waiver of the right to sue." *DeForest Co. v. United States*, 273 U. S. 236, 242. License agreements, therefore, are matters outside the patent law and subject to the general law. *Motion Picture Co. v. Universal Film Co.*, 243 U. S. 502. Accordingly, "patent pools \* \* \* are not within the patent laws at all but arrangements for the purpose of forgetting about the patents." *Workman, Patent Pools in Relation to Patent Laws*, 13 A. B. A. J. 585, 587.

Therefore any rights asserted to arise from patent pools or cross-licensing agreements, are subject to the antitrust statutes.

OVER A PERIOD OF YEARS THE RESPONDENTS, IN CON-  
CERT WITH OTHERS, HAVE ATTEMPTED TO SECURE  
A BROAD MONOPOLY BY RESTRICTIVE CONTRACTS,  
SIMILAR TO THOSE INVOLVED IN THE INSTANT CASE

The defendant below and petitioner here is Gen-  
eral Talking Pictures Corporation. The plain-  
tiffs below and respondents here are the American  
Telephone and Telegraph Company (hereinafter  
referred to as the "Telephone Company"); its sub-  
sidiary, Western Electric Company (hereinafter  
referred to as "Western"); and Electrical Re-  
search Products, Inc. (hereinafter referred to as  
ERPI) a wholly owned subsidiary of Western.  
These three companies instituted this litigation  
seeking an injunction and an accounting for the  
infringement of patents covering vacuum tube  
amplifiers.

All of the patents but one were applied for by  
persons who assigned their rights to Western;  
Western, in turn, assigned them to the Telephone  
Company. The exception, the Lowenstein patent,  
was assigned directly to the Telephone Company.  
Thus, at the time of the trial the Telephone Com-  
pany had title to all the patents. It had issued ex-  
clusive licenses to Western and ERPI to manufac-  
ture and sell the amplifiers for use in the motion  
picture field.



By a pooling, or cross-licensing arrangement, the Telephone Company authorized Radio Corporation of America (hereinafter referred to as "RCA") to issue licenses under these and other patents. RCA granted a license to the American Transformer Company. The license was restricted as to permissible use, permitting the licensee "to manufacture \* \* \* and to sell, only for radio amateur reception, radio experimental reception and radio broadcast reception \* \* \*" (R. 1414-1415).

The purpose of this restrictive provision was to withhold from the licensee the right to manufacture and sell the amplifier for use in the motion picture field.

The American Transformer Company made amplifiers and sold them to the General Talking Pictures Company, the petitioner herein, which used them as part of the sound picture equipment which it leased to theaters. The infringement alleged in the bill of complaint consisted of the actions of the vendee, General Talking Pictures Company, in using the apparatus, and in leasing it to others for use, for purposes outside the restrictions contained in the license to the vendor, American Transformer Company.

This controversy is an incident in the struggle for control of the amplifier field. The conflict has been in progress almost since the invention of the vacuum tube, and it has been marked by a series of



investigations and lawsuits.<sup>1</sup> The apparent subject matter of controversy has sometimes been the intercorporate relationships of the interested parties; sometimes it has been pooling agreements or tying contracts. Sometimes, as in this case, the conflict takes the form of a suit for patent infringement. But whatever the superficial form, the basic issue is always the same—control over the amplifier field. The prize of every skirmish has been the

<sup>1</sup> The main background appears in the record in this case where the principal licensing agreements are set forth (R. 743-792; 1305-1413). Subordinate arrangements, including the licenses to manufacture in issue herein are printed in R. 1414 *et seq.*; R. 734. Other details of the story are matters of public record. See Proposed Report, Telephone Investigation, Federal Communications Commission (1938), particularly chapters 7, 8, 13, and 14; Federal Communications Commission, Report on Electrical Research Products, Inc., pursuant to Public Resolution No. 8, 74th Congress; Hearings before the Committee on Patents, House of Representatives, 74th Congress, 2d Sess. (1935), on H. R. 4523, "Pooling of Patents," particularly pages 228-260, 262 *et seq.*, 997 *et seq.*, 1020 *et seq.*, and Appendix, giving copies of all the important agreements in three extensive parts, from pages 1199 to 3887.

The pooling agreements have often been the subject of litigation. See *United States v. Radio Corporation*, leading to stipulation and consent decree under the antitrust laws, 3 F. Supp. 23 (1932), R. 798-799; *Radio Corporation v. Lord*, 24 F. (2d) 565; *aff'd*, 28 F. (2d) 257; *cert. denied* 278 U. S. 648; on final hearing, 35 F. (2d) 962; *aff'd*, 47 F. (2d) 606; *cert. denied* 283 U. S. 847.

A suit wherein the basic licensing agreements were held to violate the antitrust laws is still in litigation; in *General Talking Pictures v. American Telephone & Tel. Co.*, 4 F. Supp. 80; on final hearing 18 F. Supp. 650; now on appeal to the Circuit Court of Appeals for the Third Circuit.

group of patents covering the vacuum tube, its manufacture, and its circuits.

An idea of the value of the interests at stake can be gathered from the chart reproduced on the following page.<sup>2</sup> It reveals the vacuum tube amplifier as the key to a vast number of technologies, profitable to those who control them, vital to the public. The three-element vacuum tube is the heart of the present electrical industry. The dissemination of news, the broadcasting of entertainment, the transmission of images (television) by wire and wireless, the talking motion picture, and the operation of diathermy machines for healing the ill all involve the vacuum tube as a necessary factor.<sup>3</sup>

<sup>2</sup> This chart is taken from Appendixes to Hearings before the Committee on Patents, House of Representatives, 74th Congress, on H. R. 4523, page 1236 (United States Government Printing Office, Washington, 1936). Although the chart shows a condition as of May 21, 1935, it is believed to be substantially accurate today.

Since the publication of the chart there has been a notable development in the field of television. It is significant that the ERPI producers' licenses have been astutely framed so as to exclude all television rights. (Borkin and Waldrop, *Television: A Struggle for Power* 1938), pp. 126-127.

<sup>3</sup> The importance of the vacuum tube is illustrated by the following statement of George E. Folk, former General Patent Attorney for the respondent Telephone Company (*Lindheimer v. Illinois Tel Co.*, 292 U. S. 151 [Transcript of Record, Vol. II, p. 1220]):

"There is no clear line of demarcation between radio and certain modern wire development. The three-element vacuum tube has frequently been referred to as the heart





The United States submits that the implications that may be drawn from this Court's first opinion in this case may have a serious effect upon the growth of arts and technologies of the greatest social and economic importance. The result may be to encourage private restrictions both in industries dependent upon the vacuum tube and in a myriad of other industries dependent upon other patented devices. Such restrictions must necessarily impede and discourage healthy competition and private enterprise.

If the considerations of public policy which have impelled the United States to file this brief are to be thoroughly understood, the legal issues of this case should be considered against the background of the historic development of the technology in the industry and of the struggles which have taken place to obtain control of that technology.

apparatus is used. Certainly, so far as the patents are concerned, there is no distinction, whether it is a wired or a wireless device."

Frank B. Jewett, Vice-President of the same company and President of its research subsidiary, the Bell Telephone Laboratories, has said (Borkin and Waldrop, *Television: A Struggle for Power* (1938), at pages 27-28) :

"The invention of the vacuum tube as a satisfactory amplifying modulating tube . . . opened up the door through which have come not only all of the things which have created this [modern electrical] industry, but likewise all of the things which have created the problems which are confronting this [governmental regulatory] commission and the industry at this present time. [Brackets supplied.]"

# A. THE EARLY DEVELOPMENT OF THE VACUUM TUBE AND THE ORGANIZATION OF THE AMPLIFIER INDUSTRY

At the opening of this century, radio broadcasting and reception were in a highly experimental stage. There was no effective means available for the amplification of extremely weak currents; as a result, very little could be done along lines of commercial value. The demand for an amplifier led to the development of the vacuum tube; the first patents covering the three-element tube were issued to Lee DeForest in 1907 and 1908.<sup>\*</sup>

While the tube was first developed for radio purposes, its utility in wired communication soon became apparent. But even before this the Bell Telephone System, of which the Telephone Company is the head, became interested and took steps to obtain control of the new device.<sup>\*</sup> For years the Bell System had maintained an aggressive policy of acquiring patents in the communications field, and in related areas. The object was to protect and extend the monopoly which it had originally achieved through the old Bell patents. These had expired, but by various methods, including the acquisition of patents on equipment and accessories, the company had retained its dominant position.<sup>\*</sup>

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<sup>\*</sup> Compare *DeForest Radio Co. v. Gen. Elec. Co.*, 283 U. S. 664 (1931); Proposed Report, Telephone Investigation, Federal Communications Commission (1938), pp. 210-212.

<sup>\*</sup> *Id.*, p. 213.

<sup>\*</sup> *Id.*, pp. 149-150.

The vacuum tube amplifier offered possibilities of improvement in long distance service which would give undisputed ascendancy in that branch of the telephone art. The Telephone Company, accordingly, proceeded to obtain control of the patents on the vacuum tube and by 1914 this had been accomplished. The only exception was that DeForest, the inventor, retained a non-transferable, personal right to the use of the tube.<sup>1</sup>

The outbreak of the World War found radio transmission and reception still in an undeveloped stage. Greater efficiency became essential and the government stepped in to bring about cooperation between the various concerns interested in wireless.

This intervention resulted in a certain amount of cooperation in the use of the patents so far as production for the government was concerned.<sup>2</sup>

The War ended and with it the period of cooperation through governmental pressure. The field was again free for unlimited rivalry between the large concerns controlling radio, the Telephone Company and the General Electric Company. The latter had developed important interests in this field. Alexanderson, of the General Electric Research Laboratory, had succeeded in building a high frequency alternator which corrected some of the existing defects in wireless broadcasting.<sup>3</sup>

<sup>1</sup> Proposed Report, Telephone Investigation, Federal Communications Commission (1938), page 255.

<sup>2</sup> Encyclopedia of the Social Sciences, "Radio."

<sup>3</sup> *Op. cit.*



This development promised to be of great commercial value and the British-Marconi system opened negotiations for the purchase of the Alexander patents. These negotiations, however, were never consummated and in 1919 RCA was organized through the instrumentality of the General Electric Company for the purpose of taking out the patents. The new corporation bought out the American-Marconi system and made a patent pool and exclusive dealing agreement with General Electric.<sup>10</sup>

The next step in the organization of the field took place in 1920 when the major companies interested in the industry entered the first of the radio amplifier cross-licensing agreements. The companies included General Electric, RCA, the Telephone Company, and Western. Soon afterwards RCA made a similar agreement with United Fruit Company and acquired the radio interests of Westinghouse Electric and Manufacturing Company.<sup>11</sup> The object and effect of these agreements were to divide the wireless and communication fields among the contracting parties. The arrangement was not frictionless, however, and during the years immediately following serious disagreements arose.

#### B. THE DEVELOPMENT OF SOUND PICTURES AND THE CONTEST FOR CONTROL

In 1925 the talking picture was technologically in the experimental stage; commercially it was

<sup>10</sup> Compare Encyclopedia of the Social Sciences, "Radio."

<sup>11</sup> *Id. loc. cit.*



small importance. In the course of the succeeding thirteen years the technology of the sound picture has been perfected and the devices of this technology have acquired great commercial value. From the beginning this new industry has been dominated by RCA and the Telephone Company because they controlled the amplifying devices which were essential factors in the technological development.

The commercial development of the sound film has been marked by a series of conflicts among the interested parties. For present purposes two of these conflicts are of particular significance. In the first place the Telephone Company and RCA fell out over the division of this new and profitable field. Later these two companies were forced to defend their hegemony against the independent suppliers of sound equipment.

It is unnecessary to describe in detail in this brief the various events which preceded and accompanied the first attempts to introduce sound into the motion picture industry and to produce sound pictures on a large scale.<sup>11</sup> It is enough to say that

<sup>11</sup> Interesting material with respect to this subject may be found in the opinion of the district court in *General Talking Pictures Corp. v. American Tel. & Tel. Co. et al.*, 18 F. Supp. 650; in the Hearings on H. R. 4523, page 423, Committee on Patents, House of Representatives, 74th Congress; and in the Proposed Report of the Federal Communications Commission prepared pursuant to Public Resolution No. 8, 74th Congress.

as a result of these developments the Telephone Company in January 1927 organized ERPI, and that in May 1928 ERPI granted licenses to all but one of the major companies engaged in the production of motion pictures which permitted those companies to produce sound pictures with equipment manufactured by Western and covered by patents owned by the Telephone Company or one of its subsidiaries.<sup>13</sup> By means of a contractual lease executed simultaneously with these recording licenses, the producers agreed to install Western reproducing equipment in all theatres under their control or in which they had an interest.<sup>14</sup>

Meanwhile a struggle for supremacy in the equipment-producing field had been taking place. A settlement in 1926 was concerned primarily with allocation of rights in the radio and communication field. With some limitations the Telephone Company

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<sup>13</sup> Proposed Report, Telephone Investigation, Federal Communications Commission (1938), p. 473.

<sup>14</sup> The contracts made by the Telephone Company through its subsidiaries, with the producing companies contained a number of other provisions obviously intended to extend and preserve the Telephone Company's dominant position. For example, the contracts provided (1) for the payment of royalties to ERPI on the distribution of competitive equipment by producer-licensees of ERPI, (2) the payment of royalties to ERPI on sound film produced by its licensees on competitive equipment where technical advice or Telephone Company patents were used, and (3) the payment of substantial minimum annual royalties.

pany obtained exclusive licenses as to wire telephony; the RCA group as to radio telegraphy. Non-exclusive licenses were exchanged as to sound recording and reproduction for commercial motion picture purposes. Other fields of sound recording were partitioned between the communication companies by means of exclusive licenses.<sup>15</sup>

As the commercial importance of talking pictures increased, further controversies arose between the Telephone Company, represented by ERPI, and RCA. The first cause of serious dissension arose from the fact that the restrictions of the ERPI licenses operated in practice to prevent the use of competitive equipment by motion picture producers or distributors. In 1928 RCA, and a committee representing producers holding ERPI licenses, demanded modification of these provisions, and this was secured after negotiations and after suit had been threatened by RCA.<sup>16</sup>

Another cause of friction between RCA and the Telephone Company arose by reason of the royalty provisions incorporated in ERPI producer recording licenses. By those provisions the producer was required to pay royalties to ERPI upon all sound records produced or distributed by it which were made (1) with the use of any technical information

<sup>15</sup> Compare, Proposed Report, Telephone Investigation, Federal Communications Commission (1938), pp. 260-262.

<sup>16</sup> *Id.*, pp. 475-476.



supplied by ERPI or (2) with any equipment, method, or system covered by any of the patents or embodying any of the inventions under which licenses were granted by ERPI to its licensee. Therefore, the use of competitive recording apparatus was unrestricted only where the sound record was produced by the licensee without the use of technical information supplied by ERPI and where no one of the many component parts of the recording equipment infringed upon or was covered by patents in respect of which ERPI was permitted to issue licenses. In effect, then, a producer had to pay a royalty to ERPI if it distributed a picture recorded with RCA equipment even though a royalty for the production of such recording had been paid to RCA by the original producer. This question was disposed of between the communications companies in the cross-licensing agreements of 1932, after RCA had threatened suit.

Furthermore, if the licensee produced sound records by the use of any technical information supplied by ERPI or with any equipment, method, or system covered by any of the patents or embodying any of the inventions in respect of which licenses were granted by ERPI, then the licensee was required to pay ERPI a royalty equal to the amount payable if the ERPI sound system had been used. The requirement of the payment of a royalty to ERPI in addition to the one paid to RCA by the

recording producer made it impractical for ERPI licensees to record with competitive equipment. Another threat of a law suit by RCA brought a settlement of this controversy in 1935, but only after protracted negotiations. In both cases ERPI gave up its claims to the royalties so far as RCA was concerned. The independent equipment manufacturers were not given the benefit of these concessions.<sup>17</sup>

The settlement of these questions terminated hostilities as between the communications companies and left them free to take steps to limit competition by independents.

#### C. THE STRUGGLE WITH THE INDEPENDENTS

As the sound apparatus industry was emerging from its promotional stage, independent producers of equipment not connected with the communications interests began to appear. For example, the defendant, General Talking Pictures, was organized in 1928 to take over the assets of the commercially unsuccessful DeForest Phonofilm Company and to place on the market a line of sound reproducing apparatus to compete with that of the communications companies and their licensees.<sup>18</sup>

<sup>17</sup> See Federal Communications Commission, Report on Electrical Research Products, Inc., pursuant to Public Resolution No. 8, 74th Congress (1937), p. XXI.

<sup>18</sup> R. 367.

The restrictive provisions in the ERPI license above discussed, and other restrictive provisions relating to repairs, replacement parts, and servicing," operated to exclude the independent manufacturers from the field. As a result, the Telephone Company and its subsidiaries maintain a highly favorable position in the manufacture and reproduction equipment.

These tactics did not go unchallenged. General Talking Pictures, Inc. commenced an action in the United States District Court for the District of Delaware under Sections 3 and 16 of the Clayton Act. The district court in Delaware held that the practices of the companies in the Telephone Company group were illegal, but this opinion was handed down after the restrictive provisions in the license agreements had become obnoxious to the public and had been eliminated (*General Talking Pictures Corp. v. American Tel & Tel. Co. et al*, 25 F. Supp. 650).

In May 1930 the United States brought suit in the United States District Court for the District of Delaware against both RCA and the Telephone Company alleging that the defendants were guilty of an unlawful combination and conspiracy in restraint of the manufacture, use, and sale of radio apparatus and that their activities violated

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<sup>19</sup> Proposed Report, Telephone Investigation, Federal Communications Commission (1938), p. 478.



Sherman Act. Negotiations between the government and the defendants led to a new cross-licensing agreement of July 1, 1932. This agreement was submitted to the court, and a stipulation was filed which resulted in a consent decree.<sup>20</sup> This decree provided for divestiture of stock holdings affecting the control of the RCA and also for the elimination of the exclusive provisions of the 1926 license agreement. The decree and the cross-licensing agreement did not purport to authorize a restrictive provision in amplifier licenses. There is, however, some evidence that the communications interests were aiming at restriction. Dr. Frank B. Jewett, president of the Bell Telephone Laboratories, appraised the new agreement as follows: <sup>21</sup>

The proposed agreement is not a free interchange of nonexclusive licenses between the contracting parties. It is an interchange of nonexclusive licenses with limitations of use. In many cases the grants are unilateral, and in others \* \* \* the limitation of field is such as to make the apparent grants to use actually of little or no value. *Broadly speaking, the practical effect of the agreement is to limit the field of possible development of each party to its present major activities.* [Italics supplied.]

<sup>20</sup> *United States v. Radio Corporation of America et al.*, D. C. Del., Eq. 793 (1930).

<sup>21</sup> Letter of June 30, 1932, Federal Communications Commission, Proposed Report, Telephone Investigation (1938), p. 264.



The respondents quote the following paragraph from the contract made in connection with the consent decree:<sup>22</sup>

4. Each party agrees that, so far as it is enabled so to do, it will in disposing of devices embodying inventions pertaining or applicable to vacuum tubes, or to generating, modifying, amplifying, transmitting or receiving electro-magnetic waves, or other devices or material the unrestricted sale of which would deprive the other party of rights to which it is entitled hereunder, use such precautions by contracts, restricted licenses or otherwise as may be necessary or advisable in order to prevent its customers or others from acquiring (by acquisition of devices from it or otherwise) licenses to use the same which the party disposing thereof has no right to grant.

They add that this agreement was approved by the government. It may be assumed that the respondents do not mean to imply that the government approved the particular license provisions which are in issue in the instant case. The apparent purpose of the clause was to give such protection as the law allows against the indiscriminate distribution of licenses. The contract does not purport to enlarge the scope of the monopoly granted by the patent law, and it is immaterial for the purposes of this case.

<sup>22</sup> Respondents' brief, p. 59.

## III

**THE RESTRICTIVE PROVISIONS OF THE LICENSE ARE AN  
ATTEMPT TO EXTEND THE PATENT MONOPOLY BE-  
YOND THE STATUTORY GRANT**

The respondents are attempting to enforce the provision of the license to the American Transformer Company which permits the company "to manufacture \* \* \*, and to sell only for radio amateur reception, radio experimental reception, and radio broadcast reception." The effect of this provision is to bar the licensee from manufacturing and selling the patented device for use in the motion picture field. If the respondents as the owners of the patents had manufactured the patented article and sold it to the petitioner with a similar restriction as to its use, the attempted restriction would have been invalid. The respondents cannot, by including a restrictive provision in a license agreement, accomplish by indirection a result which they would be powerless to achieve if they had themselves manufactured and sold the patented article. Stated otherwise, it is the contention of the United States that the power of the owner of a patent to control the ultimate use and disposition of the patented article is no greater when he frames the provisions of a license agreement than it is when he sells the article.

Prior to its decision herein; this Court has never

held that the owner of a patent may grant a license which by its terms restricts the right to manufacture and sell the patented article for use in a particular industrial field.<sup>23</sup> Nor has this Court ever held that the owner of a patent may himself manufacture and sell a patented article with the restriction that it be used only in a particular field.

On the other hand, in a long line of decisions this Court has struck down attempts to extend the patent monopoly beyond the statutory permission to make, use, and vend. Thus, this Court has held that the owner of a patent may not use the patent privilege to fix and maintain the price of the patented article after it has passed into the possession of dealers and the public. *Straus v. Victor Talking*

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<sup>23</sup> The decision in *Rubber Company v. Goodyear*, 9 Wall. 788, cited by this Court in its first opinion as authority on this point is not conclusive. There the restriction in the license was to use by the licensee at "his own establishment." This appears to be little more than a restriction, which would be implied in any event, that the use was to be by the licensee himself and not by others. At the most, this case stands for nothing more than the proposition that certain restrictions as to the place of use are permissible. The decisions in *Gamewell Fire-Alarm Telegraph Co. v. Brooklyn*, 14 Fed. 255; *Dorsey Rake Co. v. Bradley Co.*, Fed. Case No. 4,015, 7 Fed. Cas. 946, 947, are equally inconclusive. The first of these cases decided nothing more than that in an action by licensee for infringement a demurrer on the ground that the owner to the legal title to the patent had not been made a party was well founded. In the second of these cases the restriction appears to have been a restriction as to place of use rather than a restriction as to use in any particular field of industry.

*Mach. Co.*, 243 U. S. 490; *Boston Store v. American Graphophone Co.*, 246 U. S. 8. Cf. *Bauer v. O'Donnell*, 229 U. S. 1.

This Court has also held that the patent privilege cannot be used to obtain a monopoly control over unpatented materials which are used in connection with the patented article. *Motion Picture Co. v. Universal Film Co.*, 243 U. S. 502; *Carbice Corp. v. Am. Patents Corp.*, 283 U. S. 27; *Leitch Mfg. Co. v. Barber Co.*, 302 U. S. 458. Cf. *International Machines Corp. v. United States*, 298 U. S. 131.

The cases cited afford compelling analogies for decision of the case at bar. If anything, the restriction here considered is the more direct, and therefore the more obvious. It operates directly upon the conduct of the purchaser and controls his use. If an indirect restraint upon him, such as a resale price restriction, is without the patent grant, *a fortiori* the restrictions attempted here must also be beyond it.

*Adams v. Burke*, 17 Wall. 453; *Keeler v. Standard Folding Bed Co.*, 157 U. S. 659; and *Mitchell v. Hawley*, 16 Wall. 544, do not support a contrary view.<sup>24</sup> These cases did not involve restrictions on the use of patented articles.

In *Adams v. Burke*, 17 Wall. 453, a license to

<sup>24</sup> Cases dealing with the obligations assumed by the parties to license contracts are not in point. Cf. *Bement v. National Harrow Co.*, 186 U. S. 70; and *United States v. Gen. Elec. Co.*, 272 U. S. 476, 489.



manufacture and sell had been granted, limited to an area within a radius of ten miles from Boston. The licensor sued the defendant on the ground that he had infringed by using the patented article outside the limited area. The defendant pleaded in bar that he had not used any of the patented articles except such as *had been manufactured and sold by the licensee within the limited area*. This Court upheld the plea on the ground that the *restriction as to manufacture and sale* had not been violated. This was the only issue in the case, and the decision, therefore, cannot be regarded as establishing in any way the validity of the restrictive provision itself."

The facts in *Keeler v. Standard Folding Bed Co.*, 157 U. S. 659, were substantially similar to those in *Adams v. Burke*, 17 Wall. 453, and this Court properly regarded the latter decision as controlling.

In *Mitchell v. Hawley*, 16 Wall. 544, relied upon by respondents, the patentee granted a license to

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"As this Court said in *Dewey v. Des Moines*, 173 U. S. 193, 200:—

"A claim or right which has never been made or asserted cannot be said to have been denied by a judgment which does not refer to it. *Hamilton Company v. Massachusetts*, *supra*. A point that was never raised cannot be said to have been decided adversely to a party, who never set it up or in any way alluded to it. Nor can it be said that the necessary effect in law of a judgment, which is silent upon the question, is the denial of a claim or right which might have been involved therein, but which in fact was never in any way set up or spoken of."



run for the balance of the original term of the patent. This Court held that the license by its terms conferred no right after the date of the expiration of the original patent even though the term of the patent had subsequently been extended by the Commissioner of Patents. No question as to the validity of the restriction was involved or decided.

Furthermore, these cases may be distinguished on other grounds. It will be noted that they were decided at an early date, before the law with respect to monopolies and restraints on trade was as fully developed as it is today. They do not purport to establish broadly that restrictions even of time and place of use must be generally upheld, and in view of other earlier precedents this is doubtful, to say the least.<sup>22</sup> Clearly they fall far short of establishing the proposition that the owner of a patent can grant a license to manufacture and sell, which by its terms prohibits the licensee from selling the patented article for use in certain specified economic fields. Certainly nothing in these cases suggests that the owner of a patent can himself sell articles covered by the patent on condition that the articles be used only for specified purposes and enforce that condition against any one into whose hands the articles come.

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<sup>22</sup> Cf. *Wilson v. Rousseau et al.*, 4 How. 646; *Simpson et al. v. Wilson*, 4 How. 709; *Bloomer v. McQuewan et al.*, 14 How. 539; *Hobbie v. Jennison*, 149 U. S. 355.

If the kind of running restriction here involved cannot be imposed by the patentee if he chooses to sell the patented article, it cannot properly be included in a license agreement. The patentee cannot extend the scope of his privilege by choosing to license rather than to sell. To attempt to evaluate the legal content of permissible legal restrictions on the basis of whether a sale is attempted or title to the patented article passes is to ignore the realities of the situation. The controlling principle is that the patent privilege does not go beyond the right to make, use, and vend and that the limitation of that privilege cannot be avoided either by license or by the terms of sale, so as to permit the patentee to control the use of the patented article for the purpose of establishing monopoly control over an entire field of economic activity.

#### IV

**THE FACT THAT THE PETITIONER HAD NOTICE OF THE RESTRICTIVE PROVISIONS OF THE VENDOR'S LICENSE HAS NO BEARING ON THE QUESTION OF THE LEGALITY OF THOSE PROVISIONS.**

Respondents rely heavily upon notice or knowledge by the petitioner of the restrictive provisions contained in the licenses granted to the American Transformer Company. Whatever relevance that circumstance might have on subordinate issues in the case, it cannot affect and control the question

of the legality of the restrictive provisions. Notice cannot make an illegal restriction legal or else all limitations upon the patent monopoly are illusory.

The argument of the respondents throughout is circular; it assumes what it is called upon to prove. It may be stated shortly in two parts: (1) Since the owner of a patent is free to license or not to license as he pleases, he is free to license for one use and not for another; (2) if this is not so, nevertheless, knowledge of his attempt to enforce an illegal restriction turns the tables and extends the patent grant. The public policy opposed to such results has been argued earlier; as a mere matter of logical statement the arguments cannot prevail.

The first may be restated thus: since a license is "no more than an agreement not to prosecute for infringement," he is legally free to agree not to prosecute if the article embodying the patent is put to a specified use and equally free at law to prosecute if it be put to an unauthorized use. Such a proposition—from which the respondent's whole argument flows—begs the question. In brief, it recites that the whole must comprehend the part, without specifying what the whole is. It makes an absolute of a property right and erases the limitations on a privilege given for a purpose. Yet, by well established and clearly defined law, the rights of the owner of a patent are limited to the privileges which it conveys. He cannot impose

upon a licensee restrictions which do not inhere in the grant he possesses. His freedom to "do as he will with his own" stops sharply at the barriers upon restrictive use described by public policy. Outside his limited monopoly, the covenants, the licenses, the arrangements by which an invention is turned to account are subject to the general law of the land. The freedom to grant or to withhold does not define the identity of the thing given.

The effect of the contention, therefore, is to raise a question rather than to take a stand upon a rule of law. The real issue—the issue in the instant case—is what the limits of the privilege are which by license the owner of a patent farms out to another. Is the right to license for one use but not for another an aspect of the privilege inherent in the grant of patent? Or is it a restraint upon trade that renders the Sherman Act inoperative and is therefore illegal? This is the issue which is now before the Court.

To this issue the law has given a clear-cut answer. The argument, that since a patentee may decline to sell or license he may, therefore, sell under restrictions, simply does not march. The whole law of personal property is to the contrary. As a general rule one cannot clothe another with the seeming indicia of ownership and still reserve property rights against third persons.



Again, in order to spell out a patent infringement so as to avoid having only an unjustified claim of fraud under the general laws, it has to be asserted that the original sale by the Transformer Company was invalid, as in violation of the license, in view of the intent of the parties not to observe the license. This means that mere intent and not act is an infringement of the patent laws. It means that even if the petitioner observed the license requirements, yet the sale was void from its inception and it is nevertheless subject to an accounting. Clearly there is not going to be an actionable infringement unless the purchasers use the patented article in violation of the restriction. The restriction is valid only if it can be said that the patentee merely "vended" so much of his right as was not covered by the restriction, which comes merely to saying that the restriction is valid under the law of patents. Once it is held not covered by the law of patents, the notice or knowledge adds nothing more unless the general law assists to that end.

If, as the United States contends, the restrictive provision in the license agreement was invalid because it was an attempt to extend the patent privilege beyond its permissible limits, that illegality was not modified or abolished by petitioner's notice and knowledge. It is of no moment that the

petitioner may be said to have acted in deliberate disregard of the asserted rights of the respondents. If the provision in the license was illegal, the petitioner was entitled to disregard it.<sup>27</sup>

This Court has never permitted notices of patents or notices of licenses to be used for the purpose of extending the patent privilege beyond its legal bounds. For example, in *Straus v. Victor Talking Mach. Co.*, 243 U. S. 490, 500-501, this Court dismissed as of no legal consequence a so-called "license notice" which had for its obvious purpose the maintenance of resale prices on the patented article. In that case the Court said:

Courts would be perversely blind if they failed to look through such an attempt as this "License Notice" thus plainly is to sell property for a full price, and yet to place restraints upon its further alienation, such as have been hateful to the law from Lord Coke's day to ours, because obnoxious to the public interest.

Compare *Motion Picture Co. v. Universal Film Co.*, 243 U. S. 502, 509.

<sup>27</sup> Stress is placed upon some additional scope to be accorded to petitioner's *knowledge*, as distinguished from a patent *notice*. There is no basis in either policy or law for a distinction here. It is only fair to point out, however, that petitioner's knowledge was really acquired only in pursuit of its seeking—and obtaining—the advice of counsel that the restriction was invalid in law. No equities should be drawn from this circumstance.

The logic of denying legal effect to notice and knowledge requires no elaboration. Indeed, it would be pointless to hold that a restriction such as here involved is illegal but that its illegality is cured if a purchaser of the patented article has notice and knowledge of the provision in existence. Under such conditions the prohibition of the law against such restrictions would be of no practical avail. It would be easy for the owner of patents by notices, and by other steps calculated to fix prospective purchasers with knowledge, to require the use of unpatented materials with patented devices to fix and maintain resale prices and to accomplish other purposes which this Court has held to be illegal. Compare, for example, the remark of Dean Carl Barus, of Brown University, quoted in Vaughan, *Economics of Our Patent System*, page 102:

If one looks, for instance, at the highly ingenious contrivances by which the marvels of the Hertzian wave have recently been brought to the appreciation of the people, one is struck by the appearance on every clamp, every ferrule, every coil, every tube, almost on every plate and screw, of the mysterious symbol, PAT. This PAT is a cipher more potent than any formula of Cagliostro. It is behind an array of PAT, that the wisdom of the future will be entrenched, and above which so much of it as may be vouchsafed us will be broadcast.

## V

**THE RUNNING RESTRICTION INVOLVED IN THIS CASE IS VIOLATIVE OF WELL-ESTABLISHED PUBLIC POLICY; IT IS INCONSISTENT WITH THE POLICY OF THE ANTITRUST LAWS; IT DOES NOT PROMOTE THE PURPOSE OF THE PATENT LAW AND MAY IN FACT DEFEAT THAT PURPOSE**

A patent grant is an exception to the general legislative policy against monopolies and restraints of trade. The determination of how far that exception extends, and for what purpose it may be used, is one which must necessarily be made in the light of considerations of legislative policy and public benefit. In some patent cases the issue is presented in a clash between competing objectives which is difficult of resolution. The stimulation of invention must be set off against prohibition of monopolistic practices. In such instances public policy turns upon a neat balance of considerations which the courts must weigh as well as they can. The instant case seems free from such a conflict of policy. The respondents demand not protection for the invention but an extension and amplification of the rights hitherto granted under the patent law. It is doubtful whether the incentive inherent in such an extension—if the extension holds an incentive—can stimulate the progress of the art by increasing the prospective reward to the inventor. Not only must it cut across all barriers of distance, the sale of patents to large corporate organizations,



and the salaried position of the inventor, but it must reach an inventor so delicately attuned to pecuniary stimulus that he will invent with an eye upon restrictive licenses but refuse to invent if licenses, as well as sales, must be unrestricted as to use.

It is evident on the other hand that the extension will foster monopolistic control. The Court has rejected, as inconsistent with public policy as embodied in the statute, a number of ingenious devices designed to use a patent grant as a sanction for exclusive and restrictive arrangements in the distribution and use of patented articles. It has rejected restrictions upon place of use, time of use, maintenance of resale price, and use with complementary goods supplied by the owner of the patent. It has declared invalid covenants by which the patent owner, who manufactures for himself, has sought to control the product which he has sold. A decision for the respondents will put in jeopardy this whole line of judicial decision. In modern industry technology and marketing arrangements are closely interwoven. The situation presents an insistent and continuous opportunity for the display of ingenuity. If one practice is forbidden, another is quickly contrived to effect its end. The history of antitrust litigation is replete with examples of usages of trade which have served their turn, been found to be without the law and have given place to others.

The running restriction here in question, if declared valid, may be made a new instrument to attain forbidden objectives. The owner of the patent, instead of manufacturing, will be encouraged to license other corporations, frequently its own subsidiaries, to fabricate the patented article. It requires little imagination to see how the running restriction here in question can then be used to effect a control over place of use, time of use, complementary goods, and even resale price. Had a procedure been made to order to accomplish these legally forbidden ends, it is hard to see how the trade practice here in question could be improved upon.

Counsel suggest that the purpose and effect of the restriction is to limit the patent license to production for non-commercial purposes. This does not seem an adequate explanation, since radio and broadcast reception have possibilities of important commercial use as well as of pleasure and entertainment for the home. Instead, the restriction seems clearly one to secure the division of potential sales among various licensees of the patent owners, separating, for example, the radio business from that of the talking moving pictures or of telegraphic and telephonic communication. The extreme scope of this particular restriction is indicated by the fact that an officer of one of the respondents, in response to an inquiry from the licensee, the Transformer Company, stated that a purchaser from the licensee of a power supply am-

plifying unit might use it for a radio receiving set, but could not use it for an electric phonograph (R. 3642). And yet this is a type of combined usage which has now become most popular, easily capable of arrangement by the householder in the home without the aid of skilled mechanics. If a restriction of this kind is valid it means that a patent owner may regulate and limit the use of the patented article substantially as he pleases in the homes and businesses of the ultimate consumer and without regard to the inconvenience or hardship to the latter. And each non-authorized use makes the person an infringer of the patent and subject to all the remedies in tort and contract, in law and equity, for his illegal act.

The patented device in suit is now practically a necessity of modern life. If running restrictions like the present one are sustained, the public will be subjected to large inconvenience and to the uncertainties and expense of litigation. The possibilities of monopoly thus afforded may not be so immediately perceived, but are perhaps even more important; for they arise from a legal device whereby patent assignees can dominate the market for their product wherever it may be and however far removed. That this is not an idle fear, that the device is capable of use with far-reaching possibilities, is illustrated by the very patent pool operated by the respondents in this case, a pool of gigantic proportions, several times already the object of judicial or administrative inquiry.

If the respondents are successful in this litigation, they will attain a position of economic power far in excess of any contemplated by the men who drafted the language of the constitutional provision or by the legislators who enacted the patent laws. In the simpler economy in which the notion of the patent was born, the usual patent monopoly was nothing more than the exclusive right to produce for a limited period of years. The public was not at the mercy of the patent holder. In the first place the organization of society and industry was simpler. Patents, for the most part, covered relatively simple devices or processes in their entirety; industry was not dependent upon intricate devices consisting of numerous parts separately patented, the control of any one of which was sufficient to obstruct the development of the art. In the second place competitive conditions in industry restrained the owner of the patent from attempting to obtain exorbitant profits.<sup>22</sup>

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<sup>22</sup> Compare the following statement made by the Committee of the House of Representatives on Patents in House Report No. 1161, 62nd Congress, Second Session, pages 2 and 3:

"The patent law was enacted before any of our trusts came into existence; when competition was the accepted law of trade, and when combinations in restraint of trade were not in contemplation. So long as such conditions continued and the avenues of competition were kept open the monopoly granted by the patent law, limited as it was, in time tended to stimulate competition. It incited inventors to new effort and capitalists and business men were encouraged to develop inventions. Under these conditions a patent, while granting a monopoly in a specific article, had rarely a tendency to monopolize any branch of the trade,



The respondents, on the other hand, stand in a different position from that of the inventor and the entrepreneur of the mercantile period. They have obtained control of a device which is a key to processes the public cannot do without. If they are successful in this litigation, and in the restrictive policies which they have adopted, the charges and tariffs which they impose will be restrained only by their own conceptions of the public interest. Finally, they are attempting to obtain a power which will enable them to close the field completely in any particular line of development without affecting gains which they may be deriving from others. The use of the patent privilege to establish and maintain economic power of this scope cannot be justified by the constitutional provision, by the patent laws, by the decisions of this Court, or by any considerations of public policy.

It may be contended that restrictive provisions, such as those in issue here, are a necessary incident of the patent privilege, and that otherwise there will be no incentive to invention with the result that technological development will be impeded and trade and commerce discouraged. It seems obvious that the running restriction in question can stand no such reference and serve no such objectives. The patents in question are not owned by

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because few inventions were so fundamental in character as to give the owner of the patent a monopoly in any branch of the trade, and every great financial success arising from an individual patent was sure to result in rival inventions."

the inventors. Rights to the techniques in question now rest in hands three or even four times removed from the original inventors. The current progress of the art is an affair of the laboratory; the practical work is done by men who are engaged on salary and who in advance assign their rights to the corporations for which they work. It would require an argument evolved out of tenuous steps to connect the amount of their emoluments with the running restrictions here in question. To go beyond that and to make those restrictions causal to the progress of science and the useful arts is to indulge in speculation drawn to gossamer fineness. A rule of law must be grounded in probabilities; it should not rest upon the sands of such remote possibilities.

Far from stimulating the genius of the inventor, a grant of the privilege here sought may have stifling consequences for invention. The law of patents presumes an exclusive right in an invention; the respondents, blessed with a favorable verdict, will be enabled to monopolize an entire art. The liberties sought here, as buttress to their own patent pool, would put them in command of an electrical technology which penetrates the whole industrial system and has woven itself into our modern culture. This technology has been many decades in the making; a host of individuals have contributed to

its advanced state. The dominant discoveries have been the work of scientists, who have been intent upon exploring the world of the unknown. It is upon the foundations of their work, unrewarded by royalties and spurred by other incentives than exclusive rights, that the inventors have worked out the devices which have been patented. By the grant of patents, a pooling of patents, and covenants between interested parties, a series of exclusive rights have been thrown across the whole stream of the developing technique. If the running restriction here at issue is allowed, the grants sanctioned by patent will pass far beyond the particular invention and will virtually comprehend a monopoly of the whole art. It will be all but impossible for the individual inventor outside the corporation—without imminent danger of infringing a patent—to get such a foothold in the accumulated technology (which should be common property) as to allow him to develop new ideas and to give play to them in novel devices. It is far from the contemplation of the statute that the right to a patent should become a monopoly of a developing art. Otherwise, a law intended to give effect to the constitutional mandate to promote the progress of science becomes an instrument for its discouragement.

**CONCLUSION**

For the foregoing reasons, it is respectfully submitted that the two questions now before the should be answered in the negative.

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P. 1

# SUPREME COURT OF THE UNITED STATES.

No. 1.—OCTOBER TERM, 1938.

General Talking Pictures Corp., vs. Western Electric Co., Inc., Electric Research Products, et al.	}	Certiorari to the Circuit Court of Appeals for the Second Circuit.
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[November 21, 1938.]

Mr. Justice BRANDEIS delivered the opinion of the Court.

In this case, we affirmed on May 2, 1938 (304 U. S. 175), the judgment of the Circuit Court of Appeals (91 F. (2d 922), which held that respondents had infringed certain patents relating to vacuum tube amplifiers. On May 31st, we granted a rehearing (304 U. S. —), upon the following questions which had been presented by the petition for certiorari.

1. Can the owner of a patent, by means thereof, restrict the use made of a device manufactured under the patent, after the device has passed into the hands of a purchaser in the ordinary channels of trade, and full consideration paid therefor?

2. Can a patent owner, merely by a "license notice" attached to a device made under the patent, and sold in the ordinary channels of trade, place an enforceable restriction on the purchaser thereof as to the use to which the purchaser may put the device?

Upon further hearing we are of opinion that neither question should be answered. For we find that, while the devices embody the inventions of the patents in suit, they were not manufactured or sold "under the patent[s]" and did not "pass into the hands of a purchaser in the ordinary channels of trade."

These are the relevant facts. Amplifiers embodying the invention here involved are useful in several distinct fields. Among these is (a) the commercial field of sound recording and reproducing, which embraces talking picture equipment for theatres, and (b) the private or home field, which embraces radio broadcast reception, radio amateur reception and radio experimental reception. For the commercial field exclusive licenses had been granted by the pat-

2 *Gen'l Talking Pictures Corp. vs. Western Electric Co., et al.*

ent pool to Western Electric Company and Electrical Research Products, Inc. For the private or home field the patent pool granted non-exclusive licenses to about fifty manufacturers. Among these was American Transformer Company. It was licensed

"solely and only to the extent and for the uses hereinafter specified and defined . . . to manufacture . . . , and to sell . . . only for radio amateur reception, radio experimental reception and radio broadcast reception . . . licensed apparatus so manufactured by the Licensee. . . ."

The license provided further:

"Nothing herein contained shall be regarded as conferring upon the Licensee either expressly or by estoppel, implication or otherwise, a license to manufacture or sell, any apparatus except such as may be manufactured by the Licensee in accordance with the express provision of this Agreement."

Transformer Company, knowing that it had not been licensed to manufacture or to sell amplifiers for use in theatres as part of talking picture equipment, made for that commercial use the amplifiers in controversy and sold them to Pictures Corporation for that commercial use. Pictures Corporation ordered the amplifiers and purchased them knowing that Transformer Company had not been licensed to make or sell them for such use in theatres. Any use beyond the valid terms of a license is, of course, an infringement of a patent. *Robinson on Patents*, § 916. If where a patented invention is applicable to different uses, the owner of the patent may legally restrict a licensee to a particular field and exclude him from others, Transformer Company was guilty of an infringement when it made the amplifiers for, and sold them to, Pictures Corporation. And as Pictures Corporation ordered, purchased and leased them knowing the facts, it also was an infringer.

The question of law requiring decision is whether the restriction in the license is to be given effect. That a restrictive license is legal seems clear. *Mitchell v. Hawley*, 16 Wall. 544. As was said in *United States v. General Electric Co.*, 272 U. S. 476, 489, the patentee may grant a license "upon any condition the performance of which is reasonably within the reward which the patentee by grant of the patent is entitled to secure." The restriction here imposed is of that character. The practice of granting licenses for a restricted use is an old one, see *Rubber Company v. Goodyear*, 9 Wall.

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*Talking Pictures Corp. vs. Western Electric Co., et al.* 3

800; *Gamewall Fire-Alarm Telegraph Co. v. Brooklyn*,  
55. So far as appears, its legality has never been ques-  
the parties stipulated that

mon practice where a patented invention is applicable to  
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restriction was legal and the amplifiers were made and  
de the scope of the license, the effect is precisely the  
no license whatsoever had been granted to Transformer

And as Pictures Corporation knew the facts, it is in no  
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e consequently no occasion to consider what the rights of  
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nder the patent" and "had passed into the hands of a  
in the ordinary channels of trade." Nor have we occa-  
nsider the effect of a "licensee's notice" which purports  
the use of articles lawfully sold.

*Affirmed.*

Justice ROBERTS took no part in the consideration or decision  
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Test:

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# SUPREME COURT OF THE UNITED STATES.

No. 1.—OCTOBER TERM, 1938.

General Talking Pictures Corp.,  
vs.  
Western Electric Co., Inc., Electric  
Research Products, et al. } Certiorari to the Circuit  
Court of Appeals for the  
Second Circuit.

[November 21, 1938.]

Mr. Justice BLACK, dissenting.

Almost a century ago, this Court asserted, and time after time thereafter it has reasserted, that when an article described in a patent is sold and "passes to the hands of a purchaser, it is no longer within the limits of the monopoly. It passes outside of it, and is no longer under the protection of the act of Congress.

Contracts in relation to it are regulated by the laws of the State, and are subject to State jurisdiction."<sup>1</sup>

<sup>1</sup> Bloomer v. McQuewan et al., 14 How. 539, 549-50; see, Chaffee v. Boston Belting Co., 22 How. 217, 223; Mitchell v. Hawley, 16 Wall. 544, 547; Adams v. Burke, 17 Wall. 453; Wade v. Metcalf, 129 U. S. 202, 205; Boesch v. Graff, 133 U. S. 697, 702; Hobbie v. Jennison, 149 U. S. 355; Morgan Envelope Co. v. Albany Paper Co., 152 U. S. 425; Keeler v. Standard Folding Bed Co., 157 U. S. 659; Bauer v. O'Donnell, 229 U. S. 1; Straus v. Victor Talking Machine Co., 243 U. S. 490; Motion Picture Co. v. Universal Film Co., 243 U. S. 502; Boston Store v. Amer. Gramophone Co., 246 U. S. 8. The rule asserted in these cases is in accord with the views of Thomas Jefferson who served as a member of the first Patent Board established by the first Patent Act of 1790 (1 Stat. 109) and who also drafted the comprehensive Patent Law of 1793 (1 Stat. 318). See, "The Jeffersonian Encyclopedia", p. 680 (Funk and Wagnalls, 1900). The Acts of 1790 and 1793 granted patentees for fourteen years the exclusive right "of making, constructing, using and vending to others to be used." Mr. Jefferson, referring to the general rules adopted by the first Patent Board, said: "One of those [rules] was that a machine of which we were possessed might be applied by every man to any use of which it is susceptible and that this right ought not to be taken from him and given to a monopolist, because the first perhaps had occasion so to apply it. Thus a screw for crushing plaster might be employed for crushing corn-cobs. And a chain pump for raising water might be used for raising wheat: this being merely a change of application." "The Writings of Thomas Jefferson", Vol. VI, H. A. Washington, Editor, p. 181 (Published by Order of the Joint Committee of Congress on the Library, 1861). After the Patent Board's duties devolved upon the courts, Mr. Jefferson suggested that the rule be "adopted by the judges" that "the purchaser of the right to use the invention should be free to apply it to every purpose of which it is susceptible." *Id.*, p. 372. [Italics supplied.]

United States v. General Electric Co., 272 U. S. 476, relied on by the majority here, was not a suit for infringement of a patent, but was an action by the United States under the anti-trust laws. The opinion was written by Chief Justice Taft and applied some of the reasoning of the Button-Fastener case, 77 Fed. 288, in which he had agreed as Circuit Judge to the opinion of Circuit Judge Lurton. Later, this Court in *Henry v. Dick Co.*, 224 U. S. 1, with the then Justice Lurton writing the opinion, followed the Button-Fastener case.

2 *Gen'l Talking Pictures Corp. vs. Western Electric Co. et al.*

A single departure from this judicial interpretation of the patent statute<sup>2</sup> was expressly overruled within five years, and this Court again reasserted that commodities—once sold—were not thereafter “subject to conditions as to use” imposed by patent owners.<sup>3</sup> In result, the judgment here is a second departure from the traditional judicial interpretation of the patent laws.

As a consequence of the return to the interpretation of the patent statutes previously repudiated and expressly overruled, petitioner is enjoined from making full use of, and must account in triple damages for using, tubes and amplifiers which he owns. He became the owner of the tubes by purchase from various retailers authorized by respondents to sell in the open market. He became the owner of the amplifiers by purchase from a manufacturer who—having the complete right to make them—had contracted to sell only for limited uses.<sup>4</sup> The departure here permits the patentee—by virtue of his contract with the manufacturer—to restrict the uses to which this purchaser and owner may put his tubes and amplifiers.

Transformer Company was authorized by the patentee to make and to sell amplifiers. It did make such amplifiers—of a standard

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*Motion Picture Co. v. Universal Film Co.*, *supra*, expressly overruled and repudiated the doctrine of the *Dick* case. In effect, the judgment here once more revives the doctrine of the *Button-Fastener* case.

The majority opinion also relies upon *Mitchell v. Hawley*, *supra*. It is significant that in the *Hawley* case the patentee never licensed or transferred his exclusive right to sell; and the license conveyed only “the exclusive right to make, and use ‘and to license to others the right to use . . .’” 16 Wall., at 548. That case, therefore, does not justify the judgment here where the patentee’s power to vend was both transferred and exercised.

<sup>2</sup> *Henry v. Dick Co.*, 224 U. S. 1, decided March 11, 1912.

<sup>3</sup> *Motion Picture Co. v. Universal Film Co.*, *supra*, 516. Similarly, the exercise of the right to vend exhausts the right under a patent to control the price at which an article claimed in the patent may subsequently be sold. *Bauer v. O'Donnell*; *Straus v. Victor Talking Machine Co.*; *Boston Store v. American Gramophone Co.*, *supra*.

<sup>4</sup> License Agreement. “ . . . That Whereas the Licensors represent that they severally own and/or have the right to grant licenses under various United States Letters Patent relating to Power Supply and to Power Amplifier Units, hereinafter termed Licensed Apparatus,

“1. Each of the Licensors hereby grants under all of the United States Patent useful in the Licensed Apparatus, owned by it and/or with respect to which it has the right to grant licenses, . . . solely and only to the extent and for the uses hereinafter specified and defined, a personal, indivisible, non-transferable and non-exclusive license to the Licensee to manufacture at its factory . . . ; and not elsewhere without previous written permission obtained from the Radio Corporation, and to sell only for radio amateur reception, radio experimental reception, and radio broadcast reception throughout the United States and its territories or dependencies, Licensed Apparatus so manufactured by the Licensee, . . . ” [Italics supplied.] Reasonably interpreted, this contract grants the right to make everything described in the patents; the sole limitation on the right to make relates to the place of manufacture. The contract grants the right to sell the manufactured articles with an attempt by notice to restrict their use in the hands of owners to whom they are sold.

type usable in many fields,<sup>5</sup> they became its property when made, were sold to and became the property of petitioner. The prior opinion in this case, both courts below and the opinion on this rehearing, all refer to the transaction between Transformer Company and petitioner as a sale. Even the very contract authorizing the Transformer Company to make and sell the amplifiers provided "That for the purpose of this agreement all Licensed Apparatus shall be considered as 'sold' when the Licensed Apparatus has been billed out, or if not billed out, when it has been delivered, shipped, or mailed."

Notice to the purchaser in any form could not—under the patent law—limit or restrict the use of the amplifiers after they were sold<sup>6</sup> and knowledge by both vendor and purchaser that the articles were purchased for use outside the "field" for which the vendor had been given the right to sell, made the transaction between them no less a sale.<sup>7</sup> Had petitioner—after making the purchase—decided *not* to use these amplifiers in the forbidden fields, or had they been destroyed prior to such use, certainly the mere state of mind of the parties at the time of sale would not have made them both infringers.

Indeed, petitioner could use the amplifiers at all only in combination with tubes which it purchased on the open market from retailers authorized by respondents to sell. Therefore, even if the state of mind of vendor and purchaser were material, Transformer Company could be considered an infringer only because it sold a commodity which might—depending on possible events after the sale—be used in infringing combination with another lawfully purchased commodity. The patent law was not intended to accomplish such result.<sup>8</sup>

Petitioner has persistently contended throughout this litigation that no existing trade practice permits a patentee—under guise of a "license"—to extend his monopoly to commodities after sale, and

<sup>5</sup> One of respondents' officials testified: "These things, these vacuum tubes and the circuits on which we have patents, are useful in various of these fields and applicable to many fields. And if we granted licenses not restricted to any particular field, the same things could be used in these other fields." The injunction sustained here was decreed by the District Judge on the basis of his conclusion that the amplifiers put to commercial use by petitioner could also be used "for experimental or radio amateur use" as the patentee had desired. 16 F. Supp. 303. Thus, it appears that the very amplifiers made and sold to petitioner were suitable for all "fields."

<sup>6</sup> "The statutes relating to patents do not provide for any such notice and it can derive no aid from them." Motion Picture Co. case, *supra*, 509; Bauer v. O'Donnell, *supra*; Straus case, *supra*; Boston Store case, *supra*; Carbice Corporation v. American Patents Corp., 283 U. S. 27.

<sup>7</sup> Hobbie v. Jennison, *supra*; Keeler case, *supra*; Straus case, *supra*.

<sup>8</sup> Cf., Morgan Envelope Co. v. Albany Paper Co., *supra*.



4 *Gen'l Talking Pictures Corp. vs. Western Electric Co. et al.*

has not stipulated otherwise.<sup>9</sup> Neither stipulation nor practice could justify extension of patent monopoly beyond the limits of legality fixed by Congress and recognized by this Court for over three-quarters of a century. "The statutory authority to grant the exclusive right to 'use' a patented machine . . . is precisely the same, as the authority to grant the exclusive right to 'vend' . . ." A widespread practice of restricting the resale price of articles described in patents<sup>11</sup> did not prevent this Court from holding that once the statutory right to vend has been exercised "the added restriction is beyond the protection and purpose of the act."<sup>12</sup> Similarly, a "common practice . . . to grant written licenses . . . restricted to one or more . . . fields of . . . use" cannot prevent the application of "that line of cases in which this court has from the beginning held that a patentee who has parted with a patented machine by passing title to a purchaser has placed the article beyond the limits of the monopoly secured by the patent act."<sup>13</sup>

Mr. Justice REED joins in this dissent.

<sup>9</sup> The negotiations for stipulation were as follows:

"Mr. Neave: Mr. Darby, will you agree that it is common practice when a patented invention is applicable to different uses, to grant written licenses under United States patents restricted to one or more of the several fields of use, permitting exclusive or non-exclusive use of the invention by the licensee in one field and excluding its use in another field?"

"Mr. Darby: I do not agree. As a matter of fact I believe that just the opposite or the contrary is true."

"Mr. Darby: . . . Mr. Ashton called me up and told me that Mr. W. H. Davis had entered into such a stipulation in the Independent Wireless case, and asked me if I would do the same thing. I told him I could not conscientiously, because not only could I not agree that that was the common practice, but I know I thoroughly disagree with whether it was or not. In other words I was confident that was not the common practice. In my own case, I know I would not allow my own clients to do it, because I did not think it was legal."

"Mr. Darby: I am willing to stipulate it, if it will be of any assistance to Mr. Ashton, that it is, if he tells me it is, the common practice of the Western Electric Company and the Radio Corporation to do that."

"Mr. Darby: It is stipulated that it is common practice where a patented invention is applicable to different uses, to grant written licenses to manufacturers under United States Letters Patents restricted to one or more of the several fields of use permitting the exclusive or non-exclusive use of the invention by the licensee in one field and excluding its use in another field. I stipulate that and I urge, however, objection to its receipt for any evidentiary purpose, as irrelevant and immaterial what the common practice is, on the issue of law as to whether or not it is legal."

<sup>10</sup> Motion Picture Co. case, *supra*, 516.

<sup>11</sup> See, "Emancipation of Patented Articles", Walter H. Chamberlin, 6 *Ill. Law Review*, 357.

<sup>12</sup> Bauer case, *supra*, 17.

<sup>13</sup> *Id.*



**END**